



PUBLIC UTILITIES COMMISSION

August 8, 1997

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William Caton
Acting Secretary
Federal Communications Commission
1919 M Street N.W.
Washington, D.C. 20554

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FCC

Dear Secretary Caton:

The Federal Communications Commission, In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157 (adopted May 7, 1997), paragraph 248, directed:

[A]s the basis for calculating federal universal service support in their states, we will use forward-looking economic cost studies conducted by state commissions that choose to submit such cost studies to determine universal service support. ... We ask states to elect, by August 15, 1997, whether they will conduct their own forward-looking economic cost studies.

In accordance with the Commission's request, the Minnesota Public Utilities Commission (MPUC) hereby informs you that the State of Minnesota, by and through the MPUC, will conduct its own cost studies for the purpose of calculating universal service support (see the attached MPUC Order). The MPUC is engaged in proceedings to identify and adopt an appropriate cost model.

Questions regarding the status of the Minnesota proceedings regarding universal support may be directed to Mr. Mark Oberlander, Manager of the Telecommunications Unit, at 612-296-1335.

Sincerely,

Burl Haar,
Executive Secretary

Enclosure

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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Edward A. Garvey
Joel Jacobs
Marshall Johnson
Don Storm

Chair
Commissioner
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In the Matter of the State of Minnesota's
Possible Election to Conduct Its Own Forward
Looking Economic Cost Study to Determine
the Appropriate Level of Universal Service
Support

ISSUE DATE: August 8, 1997

DOCKET NO. P-999/M-97-909

ORDER ELECTING TO CONDUCT
MINNESOTA-SPECIFIC COST STUDY
AND ESTABLISHING COMMENT
DEADLINES

PROCEDURAL HISTORY

On May 8, 1997 the Federal Communications Commission (FCC) issued a Report and Order and promulgated regulations implementing the universal service requirements of the federal Telecommunications Act of 1996 (the Act).¹ REPORT AND ORDER, FCC Docket No. 96-45, FCC 97-157 (Universal Service Order). Among other things, the Universal Service Order established procedural and substantive guidelines for determining the levels of federal universal service support required in each state to meet the Act's objectives of ensuring that low income customers and customers in rural, insular, and high cost areas have access to telecommunications services comparable to the services available to urban customers and at comparable rates. Universal Service Order, ¶¶ 199 *et seq.*, 47 U.S.C. § 254(b)(3).

The Report and Order determined that the cost of service in each state would be based on forward looking economic cost studies. Universal Service Order ¶¶ 223 *et seq.* States could conduct their own cost studies, which must meet FCC standards, or they could choose to rely on the FCC to determine the cost of service based on the FCC's soon-to-be-developed forward-looking cost methodology. States intending to conduct their own cost studies must notify the FCC by August 15, 1997 and must file their studies by February 6, 1998. Universal Service Order ¶ 248.

On June 19, 1997 this Commission issued a notice requesting comments on whether Minnesota should elect to conduct its own forward-looking economic cost study. The following persons filed comments: the Department of Public Service, MCI Telecommunications Corporation,

¹Act of 1996, Pub. L. No. 104-104 110 Stat. 56, *codified at* 47 U.S.C. §§ 151 *et seq.*

U S WEST Communications, Inc., AT&T Communications of the Midwest, Inc.,
Contel of Minnesota, Inc. d/b/a GTE Minnesota, and Sprint Communications Company L.P.

All commenting parties took the position that Minnesota should conduct its own forward-looking economic cost study.

The matter came before the Commission on August 5, 1997.

FINDINGS AND CONCLUSIONS

The Commission agrees with the parties that Minnesota should conduct its own forward-looking economic cost study.

Only a Minnesota-specific study can ensure that cost characteristics unique to this state are fully reflected in Minnesota's federal universal service funding levels. While cost components and the ratios between them may be similar from state to state, there may also be differences that only state-specific studies can accurately reflect. The safest course is to conduct a Minnesota-specific study.

Furthermore, only a Minnesota-specific study can ensure that universal service rates reflect the same costs as the rates set for unbundled network elements. If these rates reflect radically different costs, companies serving high cost areas will either over-recover or under-recover costs from the universal service fund, defeating its purpose, distorting the market, and impeding the development of true competition.

Finally, until the FCC's forward-looking cost methodology is developed, it is impossible to be sure that it will be the most accurate tool for capturing the costs of providing service in Minnesota. For all these reasons, the Commission elects to conduct its own forward-looking economic cost study to determine the cost of universal service in Minnesota.

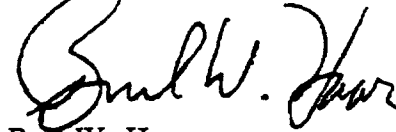
The Commission invites interested parties to file comments on the best procedural vehicle for conducting this study, including whether the matter should be referred to the Office of Administrative Hearings for evidentiary development. Given the complexity of the task and the FCC's February 6 deadline, the Commission will solicit procedural comments on an expedited basis. Initial comments will be due seven days from the date of this Order, with reply comments due seven days later.

The Commission will so order.

ORDER

1. Minnesota elects to conduct its own forward-looking economic cost study for purposes of determining the cost of providing universal service in Minnesota.
2. Initial comments on the best procedural vehicle for conducting this forward-looking economic cost study shall be filed within seven days of the date of this Order.
3. Reply comments shall be filed within seven days of the close of the initial comment period.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

A handwritten signature in black ink, appearing to read "Burl W. Haar", is written over the printed name.

Burl W. Haar
Executive Secretary

(S E A L)

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